

**Audit of Termination for Convenience Proposal of  
Subcontract Number S2233P3057, Prime Contract  
Number TIRNO-00-D-00020, Task 015**

**September 2002**

**Reference Number: 2002-1C-197**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 26, 2002

MEMORANDUM FOR DAVID A. GRANT  
DIRECTOR OF PROCUREMENT  
INTERNAL REVENUE SERVICE

*Michael R. Phillips*

FROM: Michael R. Phillips  
Acting Deputy Inspector General for Audit

SUBJECT: Audit of Termination for Convenience Proposal of Subcontract  
Number S2233P3057, Prime Contract Number  
TIRNO-00-D-00020, Task 15 (Audit #200210002.034)

In response to your request, the Defense Contract Audit Agency (DCAA) examined the subcontractor's May 17, 2002 (and subsequent revisions dated June 13, 2002, July 12, 2002 and August 1, 2002) termination for convenience settlement proposal in the amount of \$1,772,628. Subcontract number S2233P3057, under Prime contract number TIRNO-00-D-00020, Task 15 was terminated for convenience on April 15, 2002. The purpose of the examination is to determine if the proposed costs are acceptable as a basis for negotiation.

The DCAA considered the proposal acceptable for negotiation as a fair and reasonable price. However, the DCAA examined the \$1.7 million proposal and identified \$573,464 of questioned costs. The DCAA recommended that this issue be considered during the negotiation process. The questioned costs included proposed on-going costs consisting of direct labor, travel, and associated indirect expenses to retain direct employees after the date of termination until reassignment of other subcontractor's work.

According to the DCAA, based on the Federal Acquisition Regulation, the government is not required to pay for direct employee placement costs as a part of settlement for a termination for convenience. This could be considered if the employees in question were performing on this subcontract in a foreign country or remote location. However, the subject employees were working locally.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-6510 or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Attachment

# NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

*The TIGTA seal was removed due to its size.*